

CITY OF SULPHUR, LOUISIANA
ANNUAL FINANCIAL REPORT
JUNE 30, 2007

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Release Date 1/30/08

CITY OF SULPHUR, LOUISIANA

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2007

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CITY OF SULPHUR, LOUISIANA

June 30, 2007

MAYOR

The Honorable Ron LeLeux

CITY COUNCIL

**Mr. Dru Ellender
Mr. Mike Koonce
Mr. Chris Duncan**

**Ms. Nancy Tower
Mr. Stuart Moss**

LEGAL COUNSEL

Mr. Skipper Drost - City Attorney



Founded in 1978

BROUSSARD & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, L.L.C.

REPORT OF INDEPENDENT AUDITORS

Honorable Ron LeLeux, Mayor
And City Council Members
City of Sulphur, Louisiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Sulphur, Louisiana, as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial - statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above include only the primary government of the City of Sulphur, Louisiana, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the city's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Sulphur, Louisiana, as of June 30, 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the primary government of the City of Sulphur, Louisiana as of June 30, 2007, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated December 26, 2007, on our consideration of the City of Sulphur's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the required supplemental information on pages 6 through 13 and pages 48-49, respectively, are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's financial statements. The other supplemental information on pages 51 through 56 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Broussard & Company

Lake Charles, Louisiana
December 26, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Sulphur, Louisiana's annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

FINANCIAL HIGHLIGHTS

- The City's assets exceeded its liabilities by \$104.3 million (net assets) for the fiscal year reported.
- Total revenues of \$26.2 million exceeded total expenditures of \$20.8 million, resulting in a current year surplus of \$5.5 million.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$88.5 million include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net assets of \$1.0 million are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net assets of \$14.8 million represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported total ending fund balance of \$22.6 million this year. This compares to the prior year fund balance of \$22.0 million reflecting an increase of \$0.6 million during the current fiscal year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$12.5 million or 94% of total General Fund expenditures and 178% of total General Fund revenues.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City of Sulphur's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. Comparative data is presented when available.

GOVERNMENT-WIDE FINANCIAL STATEMENTS. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused employee leave).

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the City include general government, public safety and streets. The business-type activities of the City of Sulphur include the water and sewer systems.

The government-wide financial statements are presented on pages 16 through 17 of this report.

FUND FINANCIAL STATEMENTS. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Sulphur, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Sulphur maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and sales tax fund, which are considered to be major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining schedules elsewhere in this report.

The basic governmental fund financial statements are presented on pages 21 through 23 of this report.

Proprietary funds. The City of Sulphur maintains two different types of proprietary funds, Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer services. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Sulphur uses an internal service fund to account for its workers' compensation program. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer services and the workers' compensation program, both of which are considered to be major funds of the City of Sulphur.

The basic proprietary fund financial statements are presented on pages 24 through 27 of this report.

NOTES TO THE BASIC FINANCIAL STATEMENTS. The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 through 46 of this report.

OTHER INFORMATION. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City's budget presentations. Budgetary comparison schedules are included as "required supplemental information" for the general fund and the sales tax fund. These statements demonstrate compliance with the City's adopted and final revised budget. Required supplemental information can be found on pages 48 through 49 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements for non-major funds can be found on pages 51 through 56 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the City of Sulphur's assets exceeded liabilities by \$104.3 million.

The largest portion of the City's net assets (84.9 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt (still outstanding) that was used to acquire those assets. The resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City uses capital assets to provide services to citizens; consequently, these assets are not available for future spending.

At the end of the current and prior (restated) fiscal years, the City was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City of Sulphur's Net Assets
June 30,

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
ASSETS						
Current and other assets	\$ 26,248,628	\$ 25,941,922	\$ 12,344,302	\$ 16,326,319	\$ 38,592,930	\$ 42,268,241
Capital assets	<u>23,859,631</u>	<u>23,011,038</u>	<u>64,840,286</u>	<u>59,026,648</u>	<u>88,699,917</u>	<u>82,037,686</u>
Total assets	<u>50,108,259</u>	<u>48,952,960</u>	<u>77,184,588</u>	<u>75,352,967</u>	<u>127,292,847</u>	<u>124,305,927</u>
LIABILITIES						
Current liabilities	1,549,280	1,956,127	1,670,746	2,059,428	3,220,026	4,015,555
Long-term liabilities	<u>19,663,029</u>	<u>21,410,504</u>	<u>156,216</u>	<u>112,100</u>	<u>19,819,245</u>	<u>21,522,604</u>
Total liabilities	<u>21,212,309</u>	<u>23,366,631</u>	<u>1,826,962</u>	<u>2,171,528</u>	<u>23,039,271</u>	<u>25,538,159</u>
NET ASSETS						
Investment in capital assets, net of debt	23,644,791	22,791,511	64,840,286	59,026,648	88,485,077	81,818,159
Restricted	993,030	2,469,477	-	-	993,030	2,469,477
Unrestricted	<u>4,258,129</u>	<u>325,341</u>	<u>10,517,340</u>	<u>14,154,791</u>	<u>14,775,469</u>	<u>14,480,132</u>
Total net assets	<u>\$ 28,895,950</u>	<u>\$ 25,586,329</u>	<u>\$ 75,357,626</u>	<u>\$ 73,181,439</u>	<u>\$104,253,576</u>	<u>\$ 98,767,768</u>

City of Sulphur's Changes in Net Assets
Year Ended June 30,

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Programs						
Fees, fines and charges for services	\$ 2,476,406	\$ 3,213,724	\$ 4,441,487	\$ 4,298,868	\$ 6,917,893	\$ 7,512,592
Operating grants	108,126	1,925,801	-	-	108,126	1,925,801
Capital grants	-	-	-	29,229	-	29,229
General						
Sales taxes	13,108,572	13,280,486	-	-	13,108,572	13,280,486
Other taxes	3,440,831	3,419,508	-	-	3,440,831	3,419,508
Investment income	1,273,444	702,200	672,228	534,107	1,945,672	1,236,307
Other	<u>720,871</u>	<u>653,351</u>	<u>-</u>	<u>2,000</u>	<u>720,871</u>	<u>655,351</u>
Total revenue	<u>21,128,250</u>	<u>23,195,070</u>	<u>5,113,715</u>	<u>4,864,204</u>	<u>26,241,965</u>	<u>28,059,274</u>
Program expenses						
General government	2,823,058	3,571,324	-	-	2,823,058	3,571,324
Police	3,704,175	4,222,866	-	-	3,704,175	4,222,866
Fire	3,606,916	3,752,020	-	-	3,606,916	3,752,020
Streets	4,349,760	4,176,506	-	-	4,349,760	4,176,506
Inspection/animal control	370,099	442,437	-	-	370,099	442,437

Shop	259,153	249,445	-	-	259,153	249,445
Housing rehab	-	-	-	-	-	-
Interest on long-term debt	913,833	748,848	-	-	913,833	748,848
Other	-	-	-	-	-	-
Water and sewer	-	-	4,729,163	4,292,005	4,292,005	4,292,005
Total expenses	<u>16,026,994</u>	<u>17,163,446</u>	<u>4,729,163</u>	<u>4,292,005</u>	<u>20,759,157</u>	<u>21,455,451</u>
Increase (decreases) in net assets before transfers	5,101,256	6,031,624	384,552	572,199	5,485,808	6,603,823
Transfers	<u>(1,791,635)</u>	<u>(12,983,804)</u>	<u>1,791,635</u>	<u>12,983,804</u>	-	-
Increase in net assets	<u>3,309,621</u>	<u>(6,952,180)</u>	<u>2,176,187</u>	<u>13,556,003</u>	<u>5,485,808</u>	<u>6,603,823</u>
Beginning net assets	25,324,237	39,541,064	71,199,249	50,244,582	96,523,486	89,785,646
Prior period adjustments	<u>262,092</u>	<u>(7,264,647)</u>	<u>1,982,190</u>	<u>7,398,664</u>	<u>2,244,282</u>	<u>134,017</u>
Beginning net assets, restated	<u>25,586,329</u>	<u>32,276,417</u>	<u>73,181,439</u>	<u>57,643,246</u>	<u>98,767,768</u>	<u>89,919,663</u>
Ending net assets	<u>\$ 28,895,950</u>	<u>\$ 25,324,237</u>	<u>\$ 75,357,626</u>	<u>\$ 71,199,249</u>	<u>\$104,253,576</u>	<u>\$ 96,523,486</u>

GOVERNMENTAL ACTIVITIES. Governmental activities increased the City of Sulphur's net assets by \$3.3 million. Transfers totaling \$1.8 million to the enterprise fund (water and sewer services) contributed to the decrease in net assets. The transfers were mainly used to fund the waste water expansion project and other capital improvement projects.

Revenues from governmental activity decreased by \$2.1 million (8.9 percent) for the current fiscal year. In the prior year, the City received 1.9 million in reimbursement grants from FEMA related to hurricane Rita. Sales taxes decreased by \$0.2 million (1.3 percent) during the current fiscal year. The major sources of revenue for governmental activities are: sales tax (62 percent), other taxes such as property taxes and franchise taxes (14 percent), program revenues (12 percent), and other (12 percent).

Expenses from governmental activity decreased by \$1.1 million (6.6 percent) for the current fiscal year. Public safety comprises 49.6 percent of total governmental activity expenses; 22.5 percent for police services and 27.1 percent for fire protection and prevention. Street maintenance and upgrading accounted for 23.1 percent of governmental activity expenditures.

Program revenues covered 16.1 percent of governmental operating expenses in the current fiscal year. Taxes and other general revenues fund remaining 83.9 percent of the governmental activities. The table below presents total cost and net cost of each of the City's programs. The net cost reflects total cost less revenues generated by the activity.

Governmental Activities

	Total Cost of Services	Net Cost of Services
General government	\$ 2,823,058	\$ 1,661,860
Public safety		
Police	3,704,175	2,511,212
Fire	3,606,916	3,606,916
Streets	4,349,760	4,119,389
Inspection/animal control	370,099	370,099
Shop	259,153	259,153
Interest on long-term debt	913,833	913,833
Total	<u>\$16,026,994</u>	<u>\$13,442,462</u>

BUSINESS-TYPE ACTIVITIES. Business-type activities increased the City of Sulphur's net assets by \$2.2 million. Transfers from government activities were \$1.8 million in the current year.

Operating revenues for water and sewer services increased \$142,619 (3 percent) in the current fiscal year. Operating expenses increased \$437,158 (10.2 percent). This activity generated an operating loss of \$287,676 for the current fiscal year, compared to an operating gain of \$6,863 for the prior fiscal year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Sulphur uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Governmental funds reported combined ending fund balances of \$22.6 million, an increase of \$0.6 million (restated) in comparison with the prior year. Ninety-five percent of this total amount, \$21.6 million, constitutes unreserved fund balance which is available for spending at the City's discretion. Reserved fund balances (not available for new spending because it has already been committed) includes \$1.0 million committed to service debt.

The general fund is the primary operating fund of the City of Sulphur. At the end of the current fiscal year, unreserved fund balance of the general fund was \$12.5 million. A comparison of both unreserved fund balance and total fund balance to total fund expenditures can be a useful measure of the general fund's liquidity. Unreserved fund balance represents 94 percent of total general fund expenditures,

The fund balance of the City's general fund decreased by \$1.4 million during the current fiscal year. Changes in the fund balance of the City's general fund are affected by the amount of resources transferred in by the sales tax fund. The sales tax fund transferred \$6.6 million to the general fund during the current fiscal year.

Revenues on the general fund decreased \$2.3 million (24.7 percent) over the prior year. In the prior year, the City received 1.9 million in reimbursement grants from FEMA related to hurricane Rita. Expenditures decreased \$0.7 million (5.1 percent) over the prior year. The majority of this decrease was due to expenditures related to hurricane Rita in the prior year.

Revenues on the sales tax fund decreased \$0.2 million (1.3 percent) over the prior year. The City transfers excess of revenues over expenses to other City funds as provided in the sales tax ordinances.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements, but in more detail.

Unrestricted net assets of the enterprise fund (which accounts for water and sewer services) at the end of the year totaled \$10.5 million. The total growth in net assets (prior year restated) for this fund was \$2.2 million.

The internal service fund (which accounts for the City's workers' compensation program) had unrestricted net assets of \$2.0 million at the end of the current fiscal year. This represents an increase of

\$141,044 over the previous fiscal year.

BUDGETARY HIGHLIGHTS

GENERAL FUND. The budget amendments during the year reflected an increase in miscellaneous revenues (\$255,000) from the Police Jury (gaming funds). These funds were used on increases to general and administration, streets and parks and police expenditures. Transfers out were amended by \$790,000 to fund various capital projects.

Actual revenues exceeded budget by \$1,322,052 or 23% and actual expenditures were more than budgeted by \$50,084 or 0.3%. Transfers from sales tax were \$65,036 or .1% more than budgeted.

SALES TAX FUND The budget amendments reflected an increase in both sales tax revenues and transfers out of \$2,000,000.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS. The City's investment in capital assets (net of depreciation) for governmental and business-type activities as of June 30, 2006, was \$23.9 million and \$64.8 million, respectively. The total increase in the City's investment in capital assets for the current fiscal year was \$6.7 million (8.1 percent) This investment in capital assets includes land, buildings, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- Continuing expansion of the wastewater treatment plant
- Continuing program of improving, rehabilitating, and expanding the City's infrastructure

**City of Sulphur's Capital Assets
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 2,537,625	\$ 2,370,599	\$ -	\$ -	\$ 2,537,625	\$ 2,370,599
Construction in progress	629,542	1,355,241	30,232,549	24,454,469	30,862,091	25,809,710
Buildings	2,173,260	1,993,526	34,141,478	34,201,824	36,314,738	36,195,350
Furniture and equipment	2,896,439	2,420,098	415,225	325,770	3,311,664	2,745,868
Transportation equipment	1,706,912	1,472,036	51,034	39,570	1,757,946	1,511,606
Infrastructure	13,915,853	13,399,538	-	-	13,915,853	13,399,538
Total	23,859,631	23,011,038	\$ 64,840,286	\$ 59,021,633	\$ 88,699,917	\$ 82,032,671

Additional information on the City's capital assets can be found on pages 38 - 40 of this report. The following table provides a summary of capital asset activity.

LONG-TERM DEBT. At the end of the current fiscal year, the City of Sulphur had total bonded debt outstanding of \$10,662,034. Of this amount, \$10,447,194 is backed by the full faith and credit of the City (general obligation bonds) and \$214,840 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The primary revenue stream for the City of Sulphur is sales tax. Continued business development in the area has enabled the City to maintain a steady growth rate for sales tax revenues.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Sulphur's finances for all those with an interest in such. Questions concerning this report or requests for additional information should be addressed to the Director of Finance, Post Office Box 1309, Sulphur, Louisiana 70664-1309. Information about the component units and their separately issued financial statements can also be obtained from the Director of Finance.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF SULPHUR, LOUISIANA

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash	\$ 17,615,591	\$ 5,050,820	\$ 22,666,411
Receivables (net of allowance for doubtful accounts)	2,253,465	517,931	2,771,396
Inventory	39,673	78,317	117,990
Prepaid expenses	161,199	72,564	233,763
Restricted cash	-	154,970	154,970
Investments	6,178,700	6,469,700	12,648,400
Capital assets:			
Land and construction in progress	3,167,167	30,232,549	33,399,716
Capital assets, net of accumulated depreciation	20,692,464	34,607,737	55,300,201
Total assets	<u>50,108,259</u>	<u>77,184,588</u>	<u>127,292,847</u>
LIABILITIES			
Accounts and other accrued payables	1,549,280	1,515,776	3,065,056
Liabilities payable from restricted assets	-	154,970	154,970
Interest payable	2,774	-	2,774
Long-term liabilities:			
Due within on year	2,050,535	40,855	2,091,390
Due in more than one year	17,609,720	115,361	17,725,081
Total liabilities	<u>21,212,309</u>	<u>1,826,962</u>	<u>23,039,271</u>
NET ASSETS			
Invested in capital assets, net of related debt	23,644,791	64,840,286	88,485,077
Restricted for:			
Debt service	993,030	-	993,030
Unrestricted	4,258,129	10,517,340	14,775,469
Total net assets	<u>\$ 28,895,950</u>	<u>\$ 75,357,626</u>	<u>\$ 104,253,576</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SULPHUR, LOUISIANA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General and administrative	\$ 2,823,058	\$ 1,161,198	\$ -	\$ -	\$ (1,661,860)	\$ -	\$ (1,661,860)
Streets and parks	3,704,175	1,084,837	108,126	-	(2,511,212)	-	(2,511,212)
Fire	3,606,916	-	-	-	(3,606,916)	-	(3,606,916)
Police	4,349,760	230,371	-	-	(4,119,389)	-	(4,119,389)
Inspection/animal control	370,099	-	-	-	(370,099)	-	(370,099)
Shop	259,153	-	-	-	(259,153)	-	(259,153)
Interest on long-term debt	913,833	-	-	-	(913,833)	-	(913,833)
Total governmental activities	16,026,994	2,476,406	108,126	-	(13,442,462)	-	(13,442,462)
Business-type activities:							
Water and sewer	4,729,163	4,441,487	-	-	-	(287,676)	(287,676)
Total activities	\$ 20,756,157	\$ 6,917,893	\$ 108,126	\$ -	(13,442,462)	(287,676)	(13,730,138)
General revenues:							
Property taxes				1,246,015			1,246,015
Franchise taxes				1,624,391			1,624,391
Sales taxes				13,108,572			13,108,572
Intergovernmental				570,425			570,425
Grants and contributions not restricted to specific programs				-			-
Unrestricted investment earnings				1,273,444	672,228		1,945,672
Other				720,871			720,871
Transfers				(1,791,635)	1,791,635		-
Total general revenues and transfers				16,752,083	2,463,863		19,215,946
Change in net assets				3,309,621	2,176,187		5,485,808
Net assets - beginning				25,324,237	71,199,249		96,523,486
Prior period adjustment				262,092	1,982,190		2,244,282
Net assets - beginning, restated				25,586,329	73,181,439		98,767,768
Net assets - ending				\$ 28,895,950	\$ 75,357,626		\$ 104,253,576

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

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CITY OF SULPHUR, LOUISIANA

FUND DESCRIPTIONS

General Fund

The general fund is used to account for resources traditionally associated with governments which are not required to be accounted for in another fund.

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Sales Tax Fund

To account for the receipt and use of proceeds of the City's 2 1/2% sales and use tax. See Note 10 for the dedication and purpose of these taxes.

Capital Projects Fund

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds)

1996-1997 Public Improvements

To account for the acquisition, construction and improvements of major capital facilities.

Enterprise Fund

Utility Fund

To account for the provision of water and sewerage services to residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

CITY OF SULPHUR, LOUISIANA

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30,2007**

	General Fund	Sales Tax Fund	1996-1997 Public Improvement Capital Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 8,159,942	\$ -	\$ 6,898,669	\$ 2,324,260	\$ 17,382,871
Receivables	832,808	1,213,220	1,000	195,881	2,242,909
Inventories	39,673	-	-	-	39,673
Investments	4,201,700	-	-	-	4,201,700
Total assets	\$ 13,234,123	\$ 1,213,220	\$ 6,899,669	\$ 2,520,141	\$ 23,867,153
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable and accrued liabilities	\$ 734,143	\$ 291,910	\$ 186,772	\$ 74,508	\$ 1,287,333
FUND BALANCE					
Reserved for debt service	-	-	-	993,030	993,030
Unreserved - undesignated reported in:					
General fund	12,499,980	-	-	-	12,499,980
Special revenue funds	-	921,310	-	-	921,310
Debt service funds	-	-	-	109,497	109,497
Capital projects funds	-	-	6,712,897	1,343,106	8,056,003
Total fund balance	12,499,980	921,310	6,712,897	2,445,633	22,579,820
Total liabilities and fund balance	\$ 13,234,123	\$ 1,213,220	\$ 6,899,669	\$ 2,520,141	\$ 23,867,153

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	23,859,631
Internal service funds are used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets	1,958,329
Long-term liabilities, including bonds payable, special assessment debt, accrued interest payable, and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds	(19,663,029)
Prepaid expenses are not reported in the funds	161,199
	<u>\$ 28,895,950</u>

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2007**

	General Fund	Sales Tax Fund	1996-1997 Public Improvement Capital Project Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 2,870,406	\$ 13,108,572	\$ -	\$ -	\$ 15,978,978
Licenses and permits	895,185	-	-	-	895,185
Intergovernmental	570,425	-	-	-	570,425
Charges for services	1,084,837	-	-	-	1,084,837
Fines and forfeitures	230,371	-	-	-	230,371
Investment earnings	766,202	-	201,625	146,465	1,114,292
Federal and state grants and awards	5,216	-	102,910	-	108,126
Other	607,610	-	-	167,344	774,954
Total Revenues	7,030,252	13,108,572	304,535	313,809	20,757,168
EXPENDITURES					
General and administrative	2,045,639	79,922	-	-	2,125,561
Streets and parks	3,088,190	-	-	-	3,088,190
Fire	3,493,935	-	-	-	3,493,935
Police	4,113,653	-	-	-	4,113,653
Inspection/animal control	362,717	-	-	-	362,717
Shop	235,875	-	-	-	235,875
Capital outlay	-	-	1,710,406	467,248	2,177,654
Debt service:					
Principal retirement	-	-	-	1,885,358	1,885,358
Interest and fiscal charges	-	-	-	913,833	913,833
Total Expenditures	13,340,009	79,922	1,710,406	3,266,439	18,396,776
Excess (deficiency) of revenues over expenditures	(6,309,757)	13,028,650	(1,405,871)	(2,952,630)	2,360,392
OTHER FINANCING SOURCES (USES)					
Transfers in	6,574,876	-	4,611,000	2,196,181	13,382,057
Transfers (out)	(1,686,000)	(13,012,691)	-	(475,000)	(15,173,691)
Total other financing sources (uses)	\$ 4,888,876	\$ (13,012,691)	\$ 4,611,000	\$ 1,721,181	\$ (1,791,634)
Net change in fund balance	\$ (1,420,881)	\$ 15,959	\$ 3,205,129	\$ (1,231,449)	\$ 568,758
Fund balances, beginning	13,920,861	905,351	3,507,768	3,677,082	22,011,062
Prior period adjustment	-	-	-	-	-
Fund balances, beginning, restated	13,920,861	905,351	3,507,768	3,677,082	22,011,062
Fund balances, ending	\$ 12,499,980	\$ 921,310	\$ 6,712,897	\$ 2,445,633	\$ 22,579,820

The notes to the financial statements are an integral part of this statement.

CITY OF SULPHUR, LOUISIANA

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF
ACTIVITIES
Year Ended June 30, 2007

Total net changes in fund balances at June 30, 2007 per statement of revenues, expenditures and changes in fund balances	\$ 568,758
The change in net assets reported for governmental activities in the statement of activities is different because:	
Internal service funds are used by management to charge the cost of insurance to individual funds. The net expenses of certain activities of internal service fund is reported within the governmental activities	
	141,044
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay which is considered expenditures on statement of revenues, expenditures and changes in fund balances	2,564,887
Depreciation expense for the year ended June 30, 2006	(1,704,931)
Governmental funds report bonded debt repayments as expenditures. However, this expenditure does not appear in the statement of activities since the payment is applied against the bond payable on the statement of net assets	
	1,885,358
Governmental funds report proceeds from bond issues as revenue. However, this revenue does not appear in the statement of activities since proceeds are applied to bond payable on the statement of net assets.	
	(54,693)
The net effect of various transactions involving capital assets (i.e., sale and disposal) is to decrease net assets	
	(10,958)
Difference between interest on long-term debt on modified accrual basis versus interest on long-term debt on accrual basis	
	976
Governmental funds do not report compensated absences as expenditures. However, this payable does appear in the statement of activities since the payable is reported on the Statement of net assets	
	<u>(80,820)</u>
	<u>\$ 3,309,621</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

As of June 30, 2006

	Business Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
	<hr/>	<hr/>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,050,820	\$ 232,720
Receivables:		
Accounts (net of allowance for doubtful accounts)	416,463	-
Other	101,468	10,556
Prepaid expenses	72,564	-
Inventories	78,317	-
	<hr/>	<hr/>
Total Current Assets	5,719,632	243,276
	<hr/>	<hr/>
NONCURRENT ASSETS		
Investments	6,469,700	1,977,000
Restricted cash and cash equivalents	154,970	-
Fixed assets, net of accumulated depreciation	64,840,286	-
	<hr/>	<hr/>
Total Noncurrent Assets	71,464,956	1,977,000
	<hr/>	<hr/>
Total Assets	\$ 77,184,588	\$ 2,220,276
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 1,496,775	\$ 261,947
Accrued salaries and benefits	19,001	-
Accrued compensated absences	40,855	-
Customer meter deposits	154,970	-
	<hr/>	<hr/>
Total Current Liabilities	1,711,601	261,947
	<hr/>	<hr/>
Noncurrent liabilities		
Accrued compensated absences, noncurrent	115,361	-
	<hr/>	<hr/>
Total Noncurrent Liabilities	115,361	-
	<hr/>	<hr/>
Total liabilities	1,826,962	261,947
	<hr/>	<hr/>
NET ASSETS		
Investment in capital assets, net of related debt	64,840,286	-
Unrestricted	10,517,340	1,958,329
	<hr/>	<hr/>
Total net assets	\$ 75,357,626	\$ 1,958,329
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of the basic financial statements.

CITY OF SULPHUR, LOUSUANA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For The Year Ended June 30, 2006**

	Business Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 4,441,487	\$ 266,013
OPERATING EXPENSES		
General and administrative	604,116	21,923
Water department	1,120,357	-
Sewer department	1,817,303	-
Depreciation	1,187,387	-
Claims	-	228,695
Insurance	-	34,113
Total Operating Expenses	4,729,163	284,731
OPERATING INCOME (LOSS)	(287,676)	(18,718)
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	672,228	159,152
Grants	-	-
Other	-	610
Total Non-Operating Revenues (Expenses)	672,228	159,762
INCOME (LOSS) BEFORE CONTRIBUTIONS AND OPERATING TRANSFERS	384,552	141,044
CAPITAL CONTRIBUTIONS	-	-
OPERATING TRANSFERS IN	2,541,635	-
OPERATING TRANSFERS OUT	(750,000)	-
Change in net assets	2,176,187	141,044
TOTAL NET ASSETS, BEGINNING	71,199,249	1,817,285
Prior period adjustment	1,982,190	-
TOTAL NET ASSETS, BEGINNING, CORRECTED	73,181,439	1,817,285
TOTAL NET ASSET, ENDING	\$ 75,357,626	\$ 1,958,329

The notes to the financial statements are an integral part of this financial statement.

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For The Year Ended June 30, 2007

	Business Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts form customers and users	\$ 4,454,062	\$ 266,013
Payments to suppliers	(2,473,073)	(56,036)
Payments to employees	(1,095,890)	-
Claims paid	-	(222,678)
Net cash provided by operating activities	<u>885,099</u>	<u>(12,701)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	2,541,635	-
Transfers (out)	(750,000)	-
Grants	-	-
Other	-	-
Net cash (used) by noncapital and related financing activities	<u>1,791,635</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions and constructions of fixed assets	(7,370,715)	-
Other	11,198	610
Net cash (used) by capital and related financing activities	<u>(7,359,517)</u>	<u>610</u>
CASH FLOWS FORM INVESTING ACTIVITIES		
Purchased investments	(1,971,406)	-
Proceeds form sales and maturity of investments	-	-
Investment earnings	666,046	104,725
Net cash provided (used) by investing activities	<u>(1,305,360)</u>	<u>104,725</u>
Net increase (decrease) in cash and cash equivalents	(5,988,143)	92,634
Cash and cash equivalents, beginning of the year	<u>11,193,933</u>	<u>140,086</u>
Cash and cash equivalents, end of the year	<u>\$ 5,205,790</u>	<u>\$ 232,720</u>
Cash and cash equivalents at the end of the year consisted of:		
Unrestricted cash	\$ 5,050,820	\$ 232,720
Restricted cash	154,970	-
	<u>\$ 5,205,790</u>	<u>\$ 232,720</u>

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

**For The Year Ended June 30, 2007
(Continued)**

	Business Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (287,676)	\$ (18,718)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	1,187,387	-
(Increase) decreases in receivables	(27,563)	-
(Increase) decreases in inventory	(7,157)	-
Increase in allowance for doubtful accounts	-	-
Increase (decrease) in accounts payable and accrued expenses	9,789	6,017
(Increase) decrease in amounts payable related to purchase of capital assets	-	-
Increase in customer deposits	10,319	-
Net cash provided by operating activities	<u>\$ 885,099</u>	<u>\$ (12,701)</u>

CITY OF SULPHUR, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1) Summary of Significant Accounting Policies

The City of Sulphur (City) was incorporated under the provisions of the State of Louisiana LA R.S. 33:321-481. The City operates under a home rule charter.

The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guidance set forth in the Louisiana Municipal Audit and Accounting Guide, and to the industry audit guide, Audits of State and Local Governmental Units.

The Governmental Accounting Standards Board (GASB) Statement Number 20 (effective for financial statements for periods beginning after December 15, 1993) provides guidance on accounting and financial reporting for proprietary fund types and allows proprietary fund types to choose one of two options in applying pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989. The City of Sulphur has elected to use the first option for reporting its activities. This approach applies all GASB pronouncements and FASB statements and interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Changes to FASB statements and interpretations, APB opinions and ARBs issued after November 30, 1989, would not apply unless adopted by GASB.

The following is a summary of certain significant accounting policies.

A. Financial Reporting Entity

GASB Statement No. 14 established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity.. For financial reporting purposes, in conformance with GASB Standards No. 14, the City of Sulphur, Louisiana, is the financial reporting entity. The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body and
 - a. The ability of the City of Sulphur to impose its will on that organization and/or
 - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City of Sulphur.

2. Organizations for which the City of Sulphur does not appoint a voting majority but are fiscally dependent on the City of Sulphur.
3. Organizations for which the reporting entity financial statements could be misleading if data of the organization is not included because of the nature or significance of the relationship.

Based upon the application of these criteria, the following are component units that should be included in the City's reporting entity:

The City Court of Sulphur for Ward 4
The City Marshall of Sulphur for Ward 4

The West Calcasieu Airport Managing Board, a joint service agreement, and the Housing Authority of the City of Sulphur, a related organization, is also to be included in the City's reporting entity.

Only the primary government's financial information is included in these financial statements. Information on how to obtain component unit financial statements can be obtained by contacting the Director of Finance for the City of Sulphur, Louisiana.

B. Basis of Presentation

The accompanying basic financial statements of the City of Sulphur, Louisiana have been prepared in conformity with governmental accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the City as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and program revenues for each of the functions of the City's governmental activities and business type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of services offered by the City, and (b) grants and contributions that are restricted to meeting the operational or capital requirement of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

FUND FINANCIAL STATEMENTS

The City uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain City functions and activities. A fund is defined as a separate fiscal and accounting entity with a self-balancing set of accounts. The various funds of the City are classified into three categories: governmental, proprietary and fiduciary. The emphasis on fund financial statements is on major funds, each displayed on a separate column. A fund is considered major if it is the primary operating fund of the City or its total assets, liabilities, revenues, or expenditures of the individual governmental and enterprise fund is at least 10 percent of the corresponding total for all governmental and enterprise funds of that category or type; and total assets, liabilities revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The City reports the following major funds:

The general fund is the primary operating fund of the City. It accounts for all financial resources except those that are required to be accounted for in other funds.

The special revenue fund is used to account for specific revenues that are legally restricted to expenditures for particular purposes. This fund accounts for the receipt and use of proceeds of the City's 2½ % sales and use tax.

The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City's enterprise fund accounts for water and sewer services.

C. Measurement Focus/Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

MEASUREMENT FOCUS

On the government-wide statement of net assets and the statement of activities, both governmental and business type activities are presented using the economic resources measurement focus as defined in item 1. below. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

1. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
2. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

BASIS OF ACCOUNTING

In the government-wide statement of net assets and statement of activities, both governmental and business type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures (including capital outlay) generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. The City applies all applicable FASB pronouncements in accounting and reporting for its Proprietary fund.

Budgets and Budgetary Accounting

The City annually adopts and implements an operating and capital budget in accordance with requirements of state law for the General Fund and all Special Revenue and Proprietary Funds. The Capital Projects Fund's budget is a project based capital budget. Policies and procedures with respect to budgetary control are as follows.

No later than sixty days prior to the beginning of each fiscal year, the Mayor submits a budget to the City Council. The budget is prepared by fund, function and activity and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

The council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated or the revenue estimates must be changed by an affirmative vote of a majority of the City's council. The budget presented is as amended by the City Council.

D. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds and Capital Projects Funds.

In accordance with accounting principles generally accepted in the United States of America, outstanding encumbrances at year end for which goods or services are received are reclassified to expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year end and are either canceled or are included as reappropriations of fund balance for the subsequent year. Encumbrances at year end in funds that are budgeted on a project basis, including Enterprise Fund construction projects, are carried forward along with their related appropriations and are not subject to an annual cancellation and reappropriations.

E. Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less. The demand deposits and certificates of deposits are stated at cost, which approximates market. Investments securities are reported at fair value.

F. Cash Flows Statement

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

G. Accounts Receivable

Uncollectible amounts due for ad valorem taxes and other receivables of governmental funds are recognized as bad debts at the time information becomes available which would indicate that the particular receivable is not collectible.

The City utilizes the allowance method for proprietary funds to recognize doubtful accounts. Accounts receivable are stated at cost less an allowance for doubtful accounts. Accounts are considered delinquent when 30 days past due (based on days since last payment). The allowance account consists of an estimate of uncollectible specifically identified accounts and a general reserve. Management's evaluation of the adequacy of the allowance is based on a continuing

review of all accounts and includes a consideration of past user history, any adverse situations that might affect the user's ability to repay, and current economic conditions. The need for an adjustment to the allowance is considered at year end. Amounts charged-off that are subsequently recovered are recorded as income. The allowance for doubtful accounts at June 30, 2007 was \$203,738.

There appears to be concentration of credit risk with regard to general accounts receivable and more specifically accounts receivable for water and sewer user fees in the enterprise fund. The City's ability to collect the amounts due from the users of the City water and sewer system and others (as reflected on the financial statements) may be affected by significant economic fluctuations, natural disaster or other calamity in this one concentrated geographic location.

H. Inventory

Inventory is valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

I. Capital Assets

Capital assets, which include property, plant and equipment are reported in the applicable governmental or business type activities columns in the government-wide financial statements. Capital assets are capitalized at historical cost or estimated cost if historical is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of assets are not capitalized. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the estimated useful lives of assets using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Property and plant	15-50 years
Equipment	5-15 years
Transportation equipment	5 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operation-s are accounted for the same as in the government-wide statements.

J. Compensated Absences

All permanent, full-time employees earn from 10 to 30 days of vacation leave each year, depending upon length of service. Vacation leave is available for use by employees in the fiscal year succeeding the year it was earned and can be accumulated indefinitely. Upon resignation, termination, or retirement, unused vacation leave is paid to the employee at the employee's current rate of pay.

Sick leave is earned at the rate of 12 days per year by permanent, full-time employees. Unused sick leave may be accumulated from year to year. However, unused sick leave is paid up to a maximum of 65 days upon termination.

At June 30, 2007, employees of the City had accumulated \$694,305 in leave privileges, computed in accordance with GASB Statement No. 16.

K. Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds and special assessment payables.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

L. Equity Classification

In the government-wide statements, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

In the fund statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

M. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

N. Revenues, Expenditures, and Expenses

PROGRAM REVENUES

Program revenues included in the statement of activities are derived directly from the program itself or from parties outside the City's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the City's general revenues.

REVENUES

Ad valorem taxes and the related state revenue sharing are recorded in the year taxes are due and payable. Ad valorem taxes are assessed on a calendar year basis, become due on November 15 of each year, and become delinquent on December 31. The taxes are generally collected in December, January and February of the fiscal year. Sales taxes are considered as "measurable" when in the hands of sales tax collector and are recognized as revenue at that time. Interest on interest-bearing deposits is recorded or accrued as revenues when earned. Substantially all other revenues are recorded when received.

EXPENDITURES

The City's primary expenditures include salaries and insurance, which are recorded when the liability is incurred. Capital expenditures and purchases of various operating supplies are regarded as expenditures at the time purchased.

OTHER FINANCING SOURCES

Transfers between funds that are not expected to be repaid are accounted for as other financing sources (uses) when the transfer is authorized by the City.

2) Individual Fund Transactions

Transfers:

	Transfers In	Transfers Out
General Fund:		
Sales tax	\$ 6,574,876	\$ -
Water Utility Fund	-	300,000
Total general fund	<u>6,574,876</u>	<u>300,000</u>
Sales Tax:		
General Fund	-	6,574,876
1996/1997 Public Improvements	-	2,000,000
1992 Public Improvements	-	966,181
Water Utility Fund	-	3,471,635
Total sales tax	<u>-</u>	<u>13,012,692</u>
1984/1985 Paving Project:		
1992 Public Improvements	<u>-</u>	<u>-</u>
1992 Public Improvements:		
1996/1997 Public Improvements	-	475,000
Sales Tax	966,181	-
Total 1992 Public Improvements	<u>966,181</u>	<u>475,000</u>
1996/1997 Public Improvements:		
1992 Public Improvements	475,000	-
Sales Tax	<u>2,000,000</u>	<u>-</u>
Wastewater Plant		
Water Utility Fund	<u>-</u>	<u>-</u>
Water Utility Fund:		
Sales Tax	3,471,635	-
General Fund	300,000	-
Wastewater Plant	<u>-</u>	<u>-</u>
Total Water Utility Fund	<u>-</u>	<u>-</u>
Grand totals	<u>\$ 13,787,692</u>	<u>\$ 13,787,692</u>

3) Restricted Assets

Restricted assets were applicable to the following at June 30, 2007:

Enterprise Fund:

Customers deposits-water and sewer
maintenance services

154,970

4) Cash and Investments

As of June 30, 2007, the City had cash and cash equivalents (book balances) totaling \$22,810,280 (net of outstanding checks and deposit in transit) of which \$8,462,024 is in interest-bearing demand deposits, \$14,346,936 is in LAMP, and cash in hand of \$1,320.

As of June 30, 2007, the City had investments totaling \$12,648,400 which consist of United States Treasury obligations, obligations issued or guaranteed by the United States government or federal agencies. As of June 30, 2007, the weighty average maturity of the City's investment portfolio was 2.97 years.

Under Louisiana Revised Statutes 39:2955, the City may deposit funds in demand deposit accounts, interest bearing demand deposit accounts, money market accounts, and time certificates of deposit with state banks, organized under Louisiana Law and National Banks having a principal offices in Louisiana. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

Additionally, Louisiana statues allow the City to invest in United States Treasury obligations, obligations issued or guaranteed by the United States government or federal agencies, and mutual or trust funds register with the Securities and Exchange Commission which have underlying investments consisting solely of and limited to the United States government or its agencies.

In addition, local governments in Louisiana are authorized to invest in the Louisiana Asset Management Pool, Inc. (LAMP), a nonprofit corporation formed by an initiative of the State Treasurer and organized under the laws of the State of Louisiana, which operates a local government investment pool.

Interest Rate Risk. Interest Rate Risk is the risk that changes in the in interest rate will adversely affect the fair value of the investment. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned. As of June 30, 2007, the City had \$8,953,293 in demand deposits (bank balances before outstanding checks or deposits in transit). These deposits are secured from risk by \$100,000 of federal deposit insurance and \$8,853,293 of pledged securities held by the custodial bank in the name of the fiscal agent bank. Even though the pledged securities are considered uncollateralized, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the district that the fiscal agent bank has failed to pay deposited funds upon demand.

5) Property Taxes

For the year ended June 30, 2007, taxes of 14.00 mills were levied on property with net assessed valuations totaling \$87,117,970, and were dedicated as follows:

General purposes	5.52 mills
Streets - maintenance	4.24 mills
Fire - maintenance	4.24 mills
Total taxes levied	\$1,219,652

The City is permitted by ordinance to levy taxes up to 14.69 mills of assessed valuation for general governmental services. The general purpose millage is perpetual, while the streets and fire maintenance mileages are for a ten year duration and expire in 2015. Property tax millage rates are adopted in July for the calendar year in which the taxes are levied and recorded. All taxes are due and collectible when the assessment rolls are filed on or before November 15th of the current year, and become delinquent after December 31st. Property taxes not paid by the end of February are subject to lien.

6) Receivables

Receivables of \$3,339,780 at June 30, 2007, are as follows:

	Governmental Activities	Business Type Activities	Total
Sales taxes	\$ 1,213,220	\$ -	\$ 1,213,220
Charges for services, net of allowance for doubtful accounts of \$203,738	123,575	416,463	540,038
Other	709,233	174,032	883,265
	<u>\$ 2,046,028</u>	<u>\$ 590,495</u>	<u>\$ 2,636,523</u>

7) Capital Assets

	Beginning of Year	Additions	Deletions	End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,370,599	\$ 301,000	\$ 133,974	\$ 2,537,625
Construction in progress	1,355,241	1,755,606	2,481,305	629,542
Total capital assets not being depreciated	<u>3,725,840</u>	<u>2,056,606</u>	<u>2,615,279</u>	<u>3,167,167</u>
Capital assets being depreciated:				
Buildings	3,278,082	276,450	19,347	3,535,185
Furniture and equipment	5,189,155	971,286	-	6,160,441
Transportation equipment	3,107,252	428,474	205,995	3,329,731
Infrastructure	42,516,903	1,467,886	-	43,984,789
Total capital assets being depreciated	<u>54,091,392</u>	<u>3,144,096</u>	<u>225,342</u>	<u>57,010,146</u>

Less accumulated depreciation for:				
Buildings	1,284,556	84,623	7,254	1,361,925
Furniture and equipment	2,769,057	494,945	-	3,264,002
Transportation equipment	1,635,216	173,792	186,189	1,622,819
Infrastructure	29,117,365	951,571	-	30,068,936
	<u>34,806,194</u>	<u>1,704,931</u>	<u>193,443</u>	<u>36,317,682</u>
Governmental activities capital assets, net:	<u>\$ 23,011,038</u>	<u>\$ 3,495,771</u>	<u>\$ 2,647,178</u>	<u>\$ 23,859,631</u>
Business type activities:				
Capital assets not being depreciated:				
Construction in progress	24,454,469	6,977,216	1,199,136	30,232,549
Capital assets being depreciated:				
Buildings and plant	50,385,990	1,082,758	-	51,468,748
Furniture and equipment	1,238,731	126,278	-	1,365,009
Transportation equipment	245,619	18,924	-	264,543
Total capital assets being depreciated	<u>51,870,340</u>	<u>1,227,960</u>	<u>-</u>	<u>53,098,300</u>
Less accumulated depreciation for:				
Buildings and plant	16,184,166	1,143,104	-	17,327,270
Furniture and equipment	912,961	36,823	-	949,784
Transportation equipment	206,049	7,460	-	213,509
	<u>17,303,176</u>	<u>1,187,387</u>	<u>-</u>	<u>18,490,563</u>
Business type activities capital assets, net:	<u>\$ 59,021,633</u>	<u>\$ 7,017,789</u>	<u>\$ 1,199,136</u>	<u>\$ 64,840,286</u>

Depreciation expense was charged to governmental activities as follows:

General and administrative	\$ 321,965
Streets and park	1,003,218
Fire	112,981
Police	236,107
Inspection/animal control	7,382
Shop	23,278
	<u>2,945,331</u>
Total	\$ <u>1,704,931</u>

The construction in progress consists of the following projects:

	Total Budgeted	Construction in Progress
Street overlay projects	\$ 910,000	\$ 178,682
Pavilion	96,000	11,508
Sidewalk Project	290,000	18,142
Ditch & Piping Project	950,000	30,831

Bridges	1,475,000	69,356
City Hall	1,150,000	94,082
Generators	235,000	226,941
Renovation of Southside Fire Station	500,000	-0-
Wastewater Plant Expansion	28,557,000	26,810,391
Wastewater rehab	1,300,000	744,189
Verdine Plant Water Filter Media	575,000	526,960
Water Distribution	478,000	13,345
Waterline relocation old Maplewood	500,000	508,157
Main pump station	1,682,500	1,319,094
Paint Shasta and North Plant water towers	500,000	310,413
Other Projects	110,000	-0-
Total	\$ 39,308,500	\$ 30,862,091

8) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June30, 2006:

	Beginning of Year	Issued	Retired	End of Year	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$11,422,253	\$ -	\$ 975,059	\$10,447,194	\$ 1,018,633
Special assessments	219,527	54,693	59,380	214,840	53,889
Compensated absences	457,269	165,755	84,935	538,089	165,755
	<u>\$12,099,049</u>	<u>\$ 220,448</u>	<u>\$ 1,119,474</u>	<u>\$11,200,123</u>	<u>\$ 1,238,277</u>

The payments on the bonds payable are made by the debt service funds. The accrued leave benefits liability will be paid by the general fund and/or enterprise fund.

Bonds payable at June 30, 2006 are comprised of the following individual issues:

Governmental Activities:

General obligation bonds:

\$12,000,000 payable to the Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) dated October 24, 2001, due in varying monthly installments through January 1, 2030, interest at varying rates

\$ 10,447,194

Special assessment bonds:

\$127,581 paving project 1997-1 dated 12/1/97; due in varying annual installments of \$13,416-\$19,079 through December 1, 2007, interest at 4.7%

12,759

\$72,000 paving project 1999-1 dated 4/1/99; due in annual installments of \$7,209 through April 1, 2009	15,225
\$120,240 paving project 2000-1 dated 12/1/00 due in annual installments of \$12,024 through December 1, 2010, interest at 4.93%	48,096
\$140,496 paving project 2001-1 dated November 28, 2001, due in annual installments of \$14,049 through November 1, 2011, interest at 4.75%	70,248
\$19,742 paving project 2004 dated January 1, 2004, due in annual installments of \$1,974 through January 1, 2014	13,819
\$54,693 paving project 2007 dated April 1, 2007, due in annual principal installments of \$5,471 , plus interest, through April 1, 2017, interest at 5.75%	54,693
	<u>10,662,034</u>
Other long-term debt:	
Accrued leave payable - governmental activities	538,089
Accrued leave payable - business-type activities	156,216
	<u>694,305</u>
Total long-term liabilities	<u>\$ 11,356,239</u>

The annual requirements to amortize all bonds are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2008	\$ 1,072,522	\$ 546,388
2009	1,105,384	492,900
2010	1,135,231	438,090
2011	1,194,909	381,208
2012	1,234,789	321,644
2013-2017	4,919,199	635,487
	<u>\$ 10,662,034</u>	<u>\$ 2,815,717</u>

9) Capital Leases

The City has entered into two lease agreements as lessee for financing of equipment that is a component of the wastewater plant expansion. The lease obligation will be serviced by proceeds of sales tax revenues generated through governmental activities. These lease agreements qualify as capital lease for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Utility Fund

Assets:

Equipment \$ 10,000,000

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

<u>Year Ending June 30</u>	<u>Government Activities</u>
2008	\$ 1,123,676
2009	1,225,828
2010	1,225,828
2011	1,225,828
2012	1,225,828
20013 - 2017	<u>3,987,763</u>
Total minimum lease payments	10,014,751
Less: amount representing interest	<u>1,554,619</u>
Present value of minimum lease payments	<u>\$ 8,460,132</u>

10) Deficit Fund Balance

As of June 30, 2007, there was a deficit of \$7,984 in the 2005 Paving Projects fund. If necessary, the deficit will be funded by the General Fund.

11) Dedication of Sales Tax Proceeds

Proceeds of the 2½ % sales and use tax levied by the City of Sulphur, Louisiana are dedicated to the following purposes:

After distribution of ½% to 1998 public improvement bonds and 1991 capital improvement paygo fund and payment of all costs of levy and collection:

Fifty Percent (50%), but not to exceed the total annual debt service on any and all bonds secured by pledge of Proceeds of this fund to the City, which proceeds shall be dedicated and used for any of the following capital improvements: opening, construction, paving and improving streets, sidewalks, roads and alleys, constructing bridges, purchasing or constructing water works, sewerage and sewerage disposal works, drains, drainage canals, pumping plants and waste disposal facilities, facilities for pollution control and abatement, water and waste water systems, halls, courthouses, auditoriums, jails, public parks and recreation facilities. Other public works and/or buildings, title to which said works, buildings and improvements shall be in the Public.

After payment of above costs:

- 1) Ten percent (10%), but not to exceed \$150,000 annually, without subsequent approval of the Council of the City of Sulphur, Louisiana, to the Streets and Parks Department for any lawful purpose.
- 2) Ten percent (10%), but not to exceed \$150,000 annually, without subsequent approval of the Council of the City of Sulphur, Louisiana, to the Public Utilities Department for any lawful purpose.

- 3) Seven percent (7%), to the General Fund of the City of Sulphur, Louisiana for operating expenses of the City and for any other lawful purpose.
- 4) Ten percent (10%), but not to exceed \$150,000 annually, without subsequent approval of the Council of the City of Sulphur, Louisiana to the general fund of the City of Sulphur, Louisiana, for salaries and salary increases to employees of the City of Sulphur, Louisiana, based on a merit and cost-of-living evaluation system.
- 5) Three percent (3%), but not to exceed \$45,000 annually, without subsequent approval of the Council of the City of Sulphur, Louisiana, to the Fire Department for any lawful purpose.
- 6) Ten percent (10%), together with any excess portion of any of the foregoing allocations, to a reserve and match money fund, which fund shall be used first to satisfy any bond issue or bond indenture requirements, and after said bond indenture requirements have been satisfied, any excess funds to be used as matching money for any state and federal grant program or for any lawful corporate purpose at the discretion of the City of Sulphur, Louisiana.

12) Retirement Commitments

The City participates in three state-administered cost-sharing multiple-employer retirement systems, which together cover substantially all of the City's full-time employees: Municipal Employees Retirement System, Municipal Police Employees' Retirement System and Firefighters' Retirement System of the State of Louisiana. Although separately administered by their respective boards of trustees, these systems are established and regulated by acts of the Louisiana Legislature with respect to membership and contribution requirements, plan benefits, and actuarial determination of funding requirements as provided by the state constitution. Additional disclosures with respect to the City's participation in these systems are provided below.

Municipal Employees' Retirement System

The System is composed of two district plans, Plan A and Plan B, with separate assets and benefit provisions. Employees of the City are members of Plan A. Membership is mandatory as a condition of employment beginning on the date employed if the employee is on a permanent basis working at least thirty-five hours per week, not participating in another public funded retirement system and under age sixty (60) at date of employment. Those individuals paid jointly by a participating employer and the parish are not eligible for membership in the System. Under Plan A, employees who retire at or after age 60 with at least 10 years of credited services, at or after age 55 with 25 years of credited service, or at any age with 30 or more years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of their final compensation multiplied by the employee's years of credited service. Final compensation is the employee's monthly earnings during the 36 consecutive or jointed months that produce the highest average.

The System also provides death and disability benefits. Benefits are established by state statute.

The Municipal Employees' Retirement System of Louisiana issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Municipal Employees' Retirement System of Louisiana, 9737 Office Park Boulevard, Baton Rouge, LA 70809.

Plan members are required to contribute 9.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The rate at June 30, 2007 is 16.25% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the System's Board of Trustees. The City's contributions to the System for the year ended June 30, 2007, 2006 and 2005 totaled \$475,391, \$472,434 and \$421,218, respectively.

Municipal Police Employees' Retirement System

Membership is mandatory for any full-time police officer employed by a municipality of the State of Louisiana and engaged in law enforcement empowered to make arrest, providing they do not have to pay social security and providing they meet the statutory criteria. Employees who retire at or after age 50 with at least 20 years of credited service, or at or after age 55 with at least 12 years of credited service are entitled to a retirement benefit payable monthly for life, equal to 3 1/3 percent of their average final compensation multiplied by the employee's years of credited service. Final compensation is the employee's monthly earnings during the 36 consecutive or joined months that produce the highest average. The System also provides death and disability benefits. Benefits are established by state statute.

The Municipal Police Employee's Retirement System issues a publicly available report that includes financial statements and required supplemental information. That report may be obtained by writing to Municipal Police Employee's Retirement System, 8401 United Plaza Blvd., Suite 270, Eaton Rouge, LA 70809-7017.

Plan members are required to contribute 7.5% of their annual covered salary and the City is required to contribute 15.50% as established by the state statute. The City's contributions to the system for the year ended June 30, 2007, 2006 and 2005 totaled \$332,912, \$343,029 and \$476,338, respectively.

Firefighters' Retirement System

Membership is mandatory as a condition of employment beginning on date employed if the employee is on a permanent basis as a firefighter, not participating in another publicly funded retirement system and under age fifty (50) at date of employment. Employees who retire at or after age 50 with at least 20 years of credited service, or at or after age 55 with at least 12 years of credited service are entitled to a retirement benefit -payable monthly for life, equal to 3 1/3 percent of their average final compensation multiplied by the employee's years of credited service. Final compensation is the employee's monthly earnings during the 36 consecutive or joined months that produce the highest average. The System also provides death and disability benefits. Benefits are established by state statute.

The Firefighter's Retirement System issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Firefighter's Retirement System, P0 Box 94095 Capitol Station, Baton Rouge, LA 70804-9095.

Plan members are required to contribute 8.0% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The rate at June 30, 2007 is 15.5% of annual covered payroll. The contribution requirements of Plan members are established and may be amended by the System's Board of Trustees. The City's contributions to the System for the year

ended June 30, 2007, 2006 and 2005 totaled \$356,691, \$394,028 and \$413,200, respectively.

13) Contingencies and Commitments

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

14) Risk Management Obligations

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City established a limited risk management program for workers' compensation in fiscal year 1996. Premiums are paid into the internal service fund by the general and public utility funds and are available to pay claims, claim reserves, reinsurance premiums and administrative costs of the program. The surplus retained earnings resulting from charges for anticipated future catastrophic losses have been designated.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. An excess coverage insurance policy covers individual claims in excess of \$250,000 with an aggregate claim limit of \$1,000,000. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering recent claims settlement trends including frequency and amount of pay-outs and other economic and social factors.

The liability (current) for claims and judgments is reported in the internal service fund because it is expected to be liquidated with expendable available financial resources. Changes in the balances of claims liabilities during the past year are as follows:

Unpaid claims, beginning of fiscal year	\$ 255,930
Incurred claims (including IBNRs)	288,993
Claim payments	<u>(228,695)</u>
Unpaid claims, end of fiscal year	<u>\$ 261,758</u>

15) Council Members Compensation

Each council member receives monthly compensation. The following is a list of council members and their compensation for the fiscal year ended June 30, 2007:

Chris Duncan	\$4,200
Nancy Tower	4,200
Drew Ellender	4,200
Mike Koonce	4,200
Stuart Moss	4,200

The compensation paid to the Mayor for the year end June 30, 2007, is as follows:

Ron LeLeux, Mayor	\$ 68,830
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16) Prior Period Adjustment

Net assets at the beginning of the year have been adjusted to correct errors made in prior years. The errors had no effect on net income for the year ended June 30, 2007. The majority of the adjustments were to correct construction in progress, accumulated depreciation and prepaid expenses.

17) Future Commitment

The City is in the process of constructing a new wastewater plant. The project is expected to be completed during the year end June 30, 2008. The total estimated cost for this project is \$28,557,008. A total of \$26,810,391 has been incurred on the construction of the new plant through June 30, 2007.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF SULPHUR, LOUISIANA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For The Year Ended June 30, 2007

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Taxes	\$ 2,507,700	\$ 2,507,700	\$ 2,870,406	\$ 362,706
Licenses and permits	742,500	742,500	895,185	152,685
Intergovernmental	435,000	435,000	570,425	135,425
Charges for services	1,015,000	1,015,000	1,084,837	69,837
Fines and forfeitures	204,000	204,000	230,371	26,371
Investment earnings	400,000	400,000	766,202	366,202
Federal and state grants and awards	-	-	5,216	5,216
Other	114,000	404,000	607,610	203,610
Total Revenues	<u>5,418,200</u>	<u>5,708,200</u>	<u>7,030,252</u>	<u>1,322,052</u>
EXPENDITURES				
General and administrative	1,995,372	2,030,372	2,045,639	(15,267)
Streets and parks	2,790,388	2,950,388	3,088,190	(137,802)
Fire	3,673,672	3,673,672	3,493,935	179,737
Police	3,958,293	3,973,293	4,113,653	(140,360)
Inspection/animal control	420,339	420,339	362,717	57,622
Shop	241,861	241,861	235,875	5,986
Total Expenditures	<u>13,079,925</u>	<u>13,289,925</u>	<u>13,340,009</u>	<u>(50,084)</u>
Excess (deficiency) of revenues over expenditures	<u>(7,661,725)</u>	<u>(7,581,725)</u>	<u>(6,309,757)</u>	<u>1,271,968</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	6,509,840	6,509,840	6,574,876	65,036
Transfers (out)	(896,000)	(1,686,000)	(1,686,000)	-
Total other financing sources (uses)	<u>5,613,840</u>	<u>4,823,840</u>	<u>4,888,876</u>	<u>65,036</u>
Net change in fund balance	<u>(2,047,885)</u>	<u>(2,757,885)</u>	<u>(1,420,881)</u>	<u>1,337,004</u>
Fund balances, beginning, restated	11,330,243	11,330,243	13,920,861	2,590,618
Fund balances, ending	<u>\$ 9,282,358</u>	<u>\$ 8,572,358</u>	<u>\$ 12,499,980</u>	<u>\$ 3,927,622</u>

CITY OF SULPHUR, LOUISIANA

**BUDGETARY COMPARISON SCHEDULE
SALES TAX FUND**

For The Year Ended June 30, 2007

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Sales Taxes	\$ 11,000,000	\$ 13,000,000	\$ 13,108,572	\$ 108,572
EXPENDITURES				
Current				
General and administrative	110,000	110,000	79,922	30,078
Excess (deficiency) of revenues over expenditures	<u>10,890,000</u>	<u>12,890,000</u>	<u>13,028,650</u>	<u>138,650</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)	<u>(10,890,000)</u>	<u>(12,890,000)</u>	<u>(13,012,691)</u>	<u>(122,691)</u>
Total other financing sources (uses)	<u>(10,890,000)</u>	<u>(12,890,000)</u>	<u>(13,012,691)</u>	<u>(122,691)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>15,959</u>	<u>15,959</u>
Fund balances, beginning, restated	<u>-</u>	<u>-</u>	<u>905,351</u>	<u>905,351</u>
Fund balances, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 921,310</u>	<u>\$ 921,310</u>

OTHER SUPPLEMENTAL INFORMATION

CITY OF SULPHUR, LOUISIANA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007

	Debt Service Funds				
	Paving Projects 1992	Paving Projects 1993	Public Improvement 1993	Paving Projects 1996-1999	Paving Projects 2000
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 99,470	\$ 92,548
Assessments receivable:					
Current	-	-	-	4,721	6,363
Delinquent	549	19,651	-	33,500	22,745
Deferred	-	-	-	4,306	13,782
Total assets	549	19,651	-	141,997	135,438
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Cash overdraft	\$ -	\$ 3,117	\$ -	\$ -	\$ -
Accounts and contracts payable	-	-	-	-	-
Deferred revenue	-	-	-	13,615	41,614
Total Liabilities	-	3,117	-	13,615	41,614
FUND BALANCE					
Reserved for debt service	-	-	-	27,984	93,824
Unreserved - undesignated	549	16,534	-	100,398	-
Total fund balance	549	16,534	-	128,382	93,824
Total liabilities and fund balances	\$ 549	\$ 19,651	\$ -	\$ 141,997	\$ 135,438

CITY OF SULPHUR, LOUISIANA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006
(Continued)

	Debt Service Funds			Total
	Paving Projects 2003	Paving Projects 2005	Wastewater Plant	
ASSETS				
Cash and cash equivalents	\$ 7,277	\$ -	\$ 865,221	\$ 1,064,516
Assessments receivable:				
Current	564	-	-	11,648
Delinquent	980	-	-	77,425
Deferred	5,358	-	-	23,446
Total assets	14,179	-	865,221	1,177,035
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Cash overdraft	\$ -	\$ 7,984	\$ -	\$ 11,101
Accounts and contracts payable	-	-	-	-
Deferred revenue	8,178	-	-	63,407
Total Liabilities	8,178	7,984	-	74,508
FUND BALANCE				
Reserved for debt service	6,001	-	865,221	993,030
Unreserved - undesignated	-	(7,984)	-	109,497
Total fund balance	6,001	(7,984)	865,221	1,102,527
Total liabilities and fund balances	\$ 14,179	\$ -	\$ 865,221	\$ 1,177,035

CITY OF SULPHUR, LOUISIANA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006
(Continued)

	Capital Project Funds			Nonmajor Governmental Funds Totals
	1984-1985 Paving Projects	1992 Public Improvement	Total	
ASSETS				
Cash and cash equivalents	\$ 1,920	\$ 1,257,824	\$ 1,259,744	\$ 2,324,260
Assessments receivable:				
Current	83,362	-	83,362	95,010
Delinquent	-	-	-	77,425
Deferred	-	-	-	23,446
Total assets	85,282	1,257,824	1,343,106	2,520,141
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Cash overdraft	-	-	-	11,101
Accounts and contracts payable	-	-	-	-
Deferred revenue	-	-	-	63,407
Total Liabilities	-	-	-	74,508
FUND BALANCE				
Reserved for debt service	-	-	-	993,030
Unreserved - undesignated	85,282	1,257,824	1,343,106	1,452,603
Total fund balance	85,282	1,257,824	1,343,106	2,445,633
Total liabilities and fund balances	\$ 85,282	\$ 1,257,824	\$ 1,343,106	\$ 2,520,141

CITY OF SULPHUR, LOUISIANA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For The Year Ended June 30, 2007**

	Debt Service Funds				
	Paving Projects 1992	Paving Projects 1993	Public Improvement 1993	Paving Projects 1996-1999	Paving Projects 2000
REVENUES					
Assessment levies	\$ -	\$ -	\$ -	\$ -	\$ 560
Investment earnings	-	142	-	5,482	4,264
Interest on assessments	-	-	-	1,165	3,205
Total revenues	-	142	-	6,647	8,029
EXPENDITURES					
Debt service:					
Principal retirement	-	-	-	30,927	26,074
Interest and fiscal charges	-	-	-	4,015	7,316
Capital outlay	-	-	-	-	-
Total expenditures	-	-	-	34,942	33,390
Excess (deficiency) of revenues over expenditures	-	142	-	(28,295)	(25,361)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	-	142	-	(28,295)	(25,361)
Net balances, beginning	549	16,392	-	156,677	119,185
Prior period adjustment	-	-	-	-	-
Net balances, beginning, corrected	549	16,392	-	156,677	119,185
Fund balances, ending	\$ 549	\$ 16,534	\$ -	\$ 128,382	\$ 93,824

CITY OF SULPHUR, LOUISIANA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For The Year Ended June 30, 2007
(Continued)**

	Debt Service Funds			Total
	Paving Projects 2003	Paving Projects 2005	Wastewater Plant	
REVENUES				
Assessment levies	\$ 59	\$ -	\$ -	\$ 619
Investment earnings	280	-	80,358	90,526
Interest on assessments	407	-	-	4,777
Total revenues	746	-	80,358	95,922
EXPENDITURES				
Debt service:				
Principal retirement	1,974	-	1,826,383	1,885,358
Interest and fiscal charges	625	-	901,877	913,833
Capital outlay	-	7,984	-	7,984
Total expenditures	2,599	7,984	2,728,260	2,807,175
Excess (deficiency) of revenues over expenditures	(1,853)	(7,984)	(2,647,902)	(2,711,253)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	1,230,000	1,230,000
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	1,230,000	1,230,000
Net change in fund balances	(1,853)	(7,984)	(1,417,902)	(1,481,253)
Net balances, beginning	7,854	-	2,283,123	2,583,780
Prior period adjustment	-	-	-	-
Net balances, beginning, corrected	7,854	-	2,283,123	2,583,780
Fund balances, ending	\$ 6,001	\$ (7,984)	\$ 865,221	\$ 1,102,527

CITY OF SULPHUR, LOUISIANA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For The Year Ended June 30, 2007
(Continued)**

	Capital Project Funds			Nonmajor Governmental Funds Totals
	1984-1995 Paving Projects	1992 Public Improvement	Total	
REVENUES				
Assessment levies	\$ 166,725	\$ -	\$ 166,725	\$ 167,344
Investment earnings	149	51,013	51,162	141,688
Interest on assessments	-	-	-	4,777
Total revenues	166,874	51,013	217,887	313,809
EXPENDITURES				
Debt service:				
Principal retirement	-	-	-	1,885,358
Interest and fiscal charges	-	-	-	913,833
Capital outlay	2,678	456,586	459,264	467,248
Total expenditures	2,678	456,586	459,264	3,266,439
Excess (deficiency) of revenues over expenditures	164,196	(405,573)	(241,377)	(2,952,630)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	966,181	966,181	2,196,181
Transfers out	-	(475,000)	(475,000)	(475,000)
Total other financing sources (uses)	-	491,181	491,181	1,721,181
Net change in fund balances	164,196	85,608	249,804	(1,231,449)
Net balances, beginning	(78,914)	1,172,216	1,093,302	3,677,082
Prior period adjustment	-	-	-	-
Net balances, beginning, corrected	(78,914)	1,172,216	1,093,302	3,677,082
Fund balances, ending	\$ 85,282	\$ 1,257,824	\$ 1,343,106	\$ 2,445,633

COMPLIANCE, INTERNAL CONTROL REPORTS



Founded in 1978

BROUSSARD & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, L.L.C.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Ron LeLeux, Mayor
and City Council Members
Sulphur, Louisiana

We have audited the primary government financial statements of the governmental activities, the business activities, each major fund, and the aggregate remaining fund information of the City of Sulphur, Louisiana, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit we considered the City of Sulphur, Louisiana's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Sulphur, Louisiana's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Sulphur, Louisiana's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the City of Sulphur, Louisiana's financial statements that is more than inconsequential will not be prevented or detected by the City of Sulphur, Louisiana's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Sulphur, Louisiana's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 and 2007-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether financial statements of the City of Sulphur, Louisiana are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Sulphur, Louisiana's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Sulphur, Louisiana's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the City of Sulphur, Louisiana and the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Broussard & Company

Lake Charles, Louisiana
December 26, 2007

CITY OF SULPHUR, LOUISIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

07-1 Capital Assets

Condition: Management has inadequately monitored the activities in the capital projects funds. Completed construction projects were not properly recorded in the fixed asset depreciation schedule, upon completion. This is a repeat finding.

Criteria: Effective internal control requires that all projects of the City be monitored and properly capitalized when the project has been placed in service. Effective monitoring includes separately tracking expenditures for projects that are related to repairs and maintenance of existing capital assets and expenditures for projects that are related to new capital assets.

Effect: The City has not consistently calculated and recorded depreciation expense on completed projects, after the new capital assets have been placed in service.

Recommendation: The City should maintain work papers to support additions to the fixed asset records regarding construction projects and also to reflect manual depreciation calculations.

Response: The City will make every effort to work with the City Engineers to differentiate between maintenance and new construction, and to determine when a project is complete. The City will maintain work papers to support additions to the fixed asset records.

07-2 Financial Statement Reporting

Condition: The City relies on the auditing firm to assist in the preparation of external financial statements and related disclosures. Under U. S. generally accepted auditing standards, we cannot be considered part of the City's internal control structure and because of limitations of the accounting staff, the design of the City's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

Recommendation: The City should contract or employ the appropriate personnel to assist in the preparation of external financial statements.

Response: The City has contracted a CPA firm to assist in the preparation of the external financial statements.

CITY OF SULPHUR, LOUISIANA

SCHEDULE OF PRIOR YEAR MANAGEMENT COMMENTS AND SUGGESTIONS

June 30, 2006

06-1 Segregation of Duties

Condition: Because of the limited number of accounting personnel, it is not feasible to maintain a complete segregation of duties to achieve effective internal control.

Current Status: Condition resolved.

06-2 Capital Assets

Condition: Management has inadequately monitored the activities in the capital projects funds resulting in construction projects remaining in progress after they have been placed in service.

Current Status: Although the City made improvements in the monitoring of capital asset, the condition still exists. See finding 07-1.

06-03 Accumulated Depreciation on Capital Assets

Condition: Management does not have a complete and accurate detail that supports the recorded accumulated depreciation for capital assets of the City's governmental activities and business-type activities.

Current Status: Condition resolved.

06-4 Review Process

Condition: The City does not have a formal review process for payroll and related tax reports.

Current Status: Condition resolved.

06-5 June 30, 2006 Financial Statement not Timely Filed

Condition: The June 30, 2006 financial statements were not filed with the Legislative Auditor's office by January 31, 2007.

Current Status: Condition resolved.